ECONOMIC OUTLOOK

February 2020

- ***The IMF revises slightly downward its growth forecasts and estimates a modest rebound in global activity for 2020, which will come from the emerging economies.***
- ***Leading indicators point to a less pronounced slowdown in global growth and show some signs of improvement in the manufacturing sector.***
- ***Oil prices fell in January due to fears about the effects of the coronavirus on activity in China and on world trade.***
- ***The Spanish economy's growth forecasts for 2020 are being revised downwards: the government sets GDP growth at 1.6%, as does the European Commission, while CEOE estimates it at 1.5%.***
- ***In the presentation of the budgetary stability targets, the Government significant slows down the fiscal consolidation process and does not anticipate achieving budgetary balance throughout the current term.***
- ***The performance of the labour market in 2019 was not as positive as in 2018, with more moderate job creation and a less intense reduction in unemployment. At the beginning of 2020, the number of people registered with the Social Security has continued the decelerating trend seen throughout 2019.***
- ***Inflation accelerated in January due to a lower decrease in energy prices and an increase in unprocessed food prices. It is expected to slow down significantly in the coming months as a result of declining oil prices.***

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IMF (January 2020) and European Commission growth forecasts (February 2020)

	IMF				European Commission		
	2018	2019	2020	2021	2019	2020	2021
World growth	3.6	2.9	3.3	3.4			
United States	2.9	2.3	2.0	1.7			
Japan	0.3	1.0	0.7	0.5			
Eurozone	1.9	1.2	1.3	1.4	1.2	1.2	1.2
Germany	1.5	0.5	1.1	1.4	0.6	1.1	1.1
France	1.7	1.3	1.3	1.3	1.2	1.1	1.2
Spain	2.4	2.0	1.6	1.6	2.0	1.6	1.5
Italy	0.8	0.2	0.5	0.7	0.2	0.3	0.6
United Kingdom	1.3	1.3	1.4	1.5	1.3	1.2	1.2
China	6.6	6.1	6.0	5.8			
Advanced economies	2.2	1.7	1.6	1.6			
Emerging economies	4.5	3.7	4.4	4.6			
World trade	3.7	1.0	2.9	3.7			

Source: IMF and European Commission

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INTERNATIONAL SCENENARIO: the slowdown of the world economy is less pronounced

In January, the main stock markets closed the month with mostly negative results, heavily influenced by the spread of the coronavirus and the fear that it will affect economic activity in China and, by extension, its main trading partners. This situation has offset the encouraging prospects arising from the signing of the first phase of the trade agreement between the United States and China and the announcement of a subsequent slashing of the tariffs by half, starting in mid -February, to boost trade between both countries.

Meanwhile, the IMF has revised its forecasts for the global economy slightly downwards to 3.3% in 2020, one tenth less than estimated in October, which will represent higher growth than the 2.9% posted in 2019, the year with the worst figures since the financial crisis. By 2021, growth will stand at 3.4%, one tenth higher than estimations for 2020 and two tenths lower than previously estimated. However, performance will be uneven across regions. A mild slowdown is expected in the United States, Japan and China, although in the case of the latter, it may be aggravated by the effects of the coronavirus health emergency on the economy. In addition, the IMF expects a slight improvement in the Eurozone and in the United Kingdom, in contrast to the European Commission, which expects the growth rate to remain unchanged in the Eurozone for 2020 and 2021 and for the United Kingdom to post a slightly lower GDP growth.

In any case, growth rates will slow down in the advanced economies as a whole, while the push is expected to come from the emerging economies, with countries such as India, Russia, Brazil and Mexico, among others, to post growing economic activity rates. Nonetheless, there are still several downward risks to the world economy, such as those associated with geopolitics, protectionism, or the vulnerability of some emerging economies to possible turbulence in the financial markets, while some other risk factors have eased in recent months, such as trade risks or the possibility of a Brexit without agreement. Nonetheless, in this regard, there is still a high degree of uncertainty about how the future trading relationship between the United Kingdom and the European Union will be.

In Q4-2019, the United States maintained a solid rate of growth of 0.5%, the same as in the previous two quarters, while the Eurozone and the United Kingdom recorded more disappointing figures, with the former posting 0.1%, two tenths less than in the Q3, and the latter showing stagnation in the activity rate, five tenths less than in the previous quarter. However, the leading indicators for Q1-2020 point to a less pronounced slowdown in global activity, with signs of improvement in the manufacturing sector. Thus, the PMI index increased once again and has consolidated globally around the expansion level, although in certain regions, such as the Eurozone or Japan, it still reflects contraction. In addition, PMIs for services improved in January, and the overall composite PMI increased by six tenths, reaching a 10-month high. The positive performance of PMIs is widespread, with India's increase being noteworthy, where it has reached the highest level of the last seven years.

Meanwhile, the main central banks kept their markedly expansive monetary policies unchanged, with interest rates at very low levels and ongoing purchases of public and private debt. Furthermore, the ECB has indicated that it will carry out a strategic review of its monetary policy throughout the year, since, as indicated by its President, Christine Lagarde, the current situation is different from that of 2003, when the inflation target was set below but close to 2%. At the same time, the Federal Reserve maintained its rates within the 1.5%-1.75% range and confirmed that it would keep in place the purchases of Treasury bonds at $60 billion per month at least until April, and then gradually reduce them. Its president, Jerome Powell, stressed that the current monetary policy is the appropriate one to favour the growth of the economy and the labour market and to reach the 2% inflation target.

As for oil, in January the price of Brent crude fell to $64.4 per barrel, 6.7% lower than in December, although it was still 9.1% higher than a year earlier. However, the price has dropped significantly in recent weeks due to lower demand in China, which is the world's largest consumer, and its measures to stop the spread of the coronavirus. At the beginning of February, it was already trading below $55 per barrel due to fears about the Asian country's growth and its effects on the world economy. In the meantime, the OPEC+ countries are assessing the possibility of further cuts in production to contain the decline in oil prices.

THE SPANISH ECONOMY: GDP increased 2% in 2019 and its slowdown is expected to continue in 2020 and 2021

Preliminary GDP for Q4 (up a quarterly 0.5%) set growth for the Spanish economy at 2.0% in 2019, in comparison to 2.4% in 2018. Despite this loss of dynamism, the figure was more positive than the one recorded for the Eurozone as a whole (estimated growth of 1.2% in 2019) and enabled the correction of imbalances to continue: the unemployment rate fell further (although at a slower rate, to 14.1%), there was no inflationary pressure (0.7% on average) and the Spanish economy is still running an external surplus (probably close to 2% of GDP).

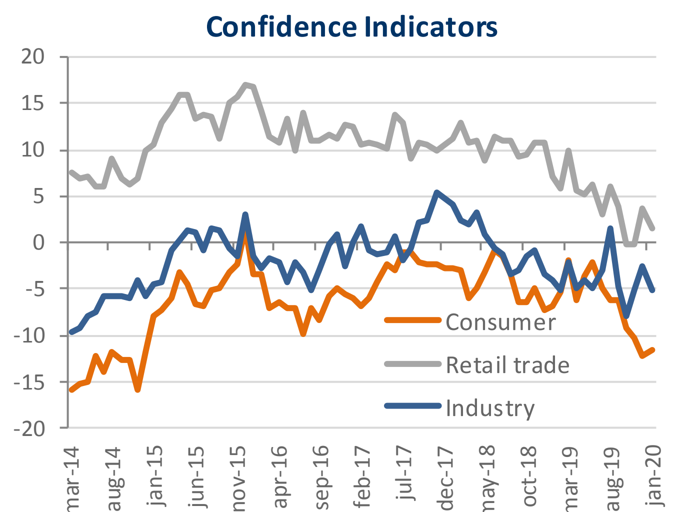
Growth forecasts point to a continued slowdown of the Spanish economy, to be set at 1.5% in 2020 and 1.4% in 2021, according to CEOE estimates (see Forecast Report 2020-2021). The Government's new macroeconomic plan also foresees this continued slowdown, but it is somewhat more optimistic and expects GDP to reach 1.6% in 2020 and 1.5% in 2021, in line with the forecasts published by the European Commission in February. For the following years, 2022 and 2023, it points to a change in trend, with higher growth, albeit very moderate (1.6% and 1.7%).

Within this context, the Government presented its budgetary stability objectives, which show a notable slowdown in the fiscal consolidation process and do not foresee budgetary balance throughout the current political term. Thus, the Government estimates a public deficit of -1.8% of GDP this year (the final figure for 2019 has not yet been released) and of -1.5% of GDP in 2021. It is not until 2023 that it will be able to bring it down to -1% of GDP. Therefore, there is a lower degree of commitment to achieving balanced public accounts, while public debt levels will remain above 90% of GDP until 2022.

DEMAND AND ACTIVITY: the Spanish economy is supported in the final stretch of 2019 by the positive performance of the external sector

The data on the progress of the National Accounts for Q4 showed stable activity within the slowdown path followed by the Spanish economy recently, with a quarter-on-quarter increase of 0.5%. Awaiting the final data for Q4, GDP for 2019 as a whole could be characterized by a notable slowdown in domestic demand. In particular, it is worth noting the decrease in spending and investment in the private sector (families and companies), a trend explained by the decline in confidence indicators, the deterioration of expectations and the increase in costs. Thus, household consumption went from 1.8% in 2018 to 1.1% in 2019, within a context of more employment and wages increasing over 2%. In addition, investment in capital goods recorded lower growth, standing at 3.0%, vs. 5.6% in 2018. In January 2020, consumer confidence showed similar levels to those in Q4 and the same can be said of industrial confidence, with construction, services and trade showing a slight improvement.

On the other hand, the external sector made a positive contribution to GDP growth in 2019 thanks to the moderation of imports, which rose by only 1.2% because of the stagnation of the goods component, while exports remained practically stable due to the strength of the services component. Complete information on Customs Statistics for 2019 is not yet available, but the cumulative data up to November shows that, in nominal terms, exports are growing more strongly than imports. This would enable the balance of goods, which stands at a similar value to the one recorded for the same period in 2018, to continue posting positive figures. This fact, together with the favourable evolution of the balance of services, especially with regard to tourism (which reached a new high in 2019 with 83.7 million international tourists), could allow the Current Account Balance to close the year at similar levels to those of 2018, around 2%.



Source: European Commission

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THE LABOUR MARKET: moderation in job creation continues at the beginning of 2020

LFS results for Q4-2019 were surprising, showing a 2.1% yoy increase in the number of employed people, which differs from the slowdown in the number of people registered with the Social Security during the same period. However, for the year as a whole, there was a loss of dynamism in job creation according to the LFS. Thus, employment increased an annual average of 2.3% in 2019, that is, four tenths less than the previous year. This means that 451,600 jobs were created last year, some 50,000 fewer than those generated in 2018.

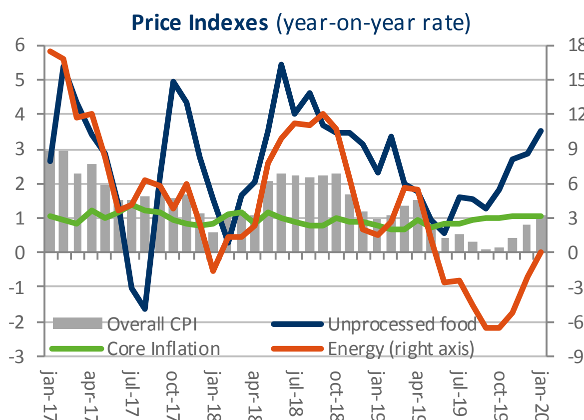
This slowdown in employment, together with a more intense growth in the active population, led to a more modest reduction in unemployment in 2019 than in previous years. Thus, the number of unemployed people stood at almost 3.25 million, and the unemployment rate at 14.1% of the active population, being in both cases the lowest figures since 2008.

In line with the slower growth in activity, job creation will continue to lose momentum in 2020, with the first available figures already pointing in this direction. In a seasonally unfavourable month, the number of people registered with the Social Security fell by 244,044 in January, the sharpest drop this month during the recovery period. The yoy rate decreased two tenths, to 1.8% (1.6% excluding non-professional caregivers). The number of people employed in the public sector continues to grow at a good pace, 2.9%, although with a slight slowdown. In the private sector, the yoy rate fell to 1.7%, but this figure drops to 1.4% if non-professional caregivers are excluded.

PRICES: inflation rebounded in January as a result of the behaviour of energy and unprocessed food prices

In January, yoy CPI grew by three tenths to 1.1%, due to the evolution in the price of energy products and unprocessed foods. Core inflation, meanwhile, remains stable at 1.0% and the groups that comprise it continue to make very modest progress. The decline in energy prices seen in previous months has now given way to stabilization. However, oil prices are expected to remain very contained in the coming months due to lower demand from China and its effects on the global economy. Therefore, forecasts suggest that inflation could fall in the near future to around 0.5%

Price Indexes (year-on-year rate)



Source: INE

THE PUBLIC SECTOR: the government significantly slows down the fiscal consolidation process

In the presentation of the budgetary stability targets, the Government delays and significantly slows down the fiscal consolidation process and does not anticipate achieving budgetary balance throughout the current term. In fact, the new deficit objectives are -1.8% of GDP by 2020, -1.5% of GDP by 2021, -1.2% of GDP by 2022 and -0.9% of GDP by 2023. In addition, the expenditure ceiling is raised again for 2020, to €127.609 billion, 3.8% more than in 2019, which means that fiscal policy will have an expansive bias. With regard to public debt, the Government estimates that the public debt-to -GDP ratio will be 94.6% this year, 93.4% in 2021, 91.7% in 2022 and 89.8% in 2023.

In terms of budgetary implementation up to November, the Central Government, the Regional Governments (Autonomous Communities) and the Social Security have reached a deficit of -1.7% of GDP, higher than the -1.5% of GDP of the previous year. This is the result of a 3.9% increase in revenues and a 4.5% increase in payments. By levels of administration, while the Regional Governments have posted worse results, with a deficit of -0.25% of GDP vs. a surplus in 2018, the Central Government and the Social Security have made a slight effort to contain their negative balance. However, the budgetary position until November reflects a worsening in the public accounts balance in comparison with 2018.